

Auditing Procedures Report V1.04

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Issued under Public Act 2 of 1968, as amended.

Unit Name	MENDON DDA	County	ST. JOSEPH	Type	AUTHORITY	MuniCode
Opinion Date-Use Calendar	Jul 7, 2008	Audit Submitted-Use Calendar	Aug 13, 2008	Fiscal Year-Use Drop List	2008	

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input type="checkbox"/>	18. Are there reported deficiencies?
<input type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 789,909.00
General Fund Expenditure:	\$ 540,169.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	\$ 797,570.00
Governmental Activities Long-Term Debt (see instructions):	\$ 221,771.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

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MENDON DOWNTOWN DEVELOPMENT AUTHORITY
MENDON, MICHIGAN

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

MARCH 31, 2008

MENDON DOWNTOWN DEVELOPMENT AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

Authority Board

Mendon Downtown Development Authority

We have audited the accompanying financial statements of the governmental activities and the major fund of the Mendon Downtown Development Authority, Michigan, (a component unit of the Village of Mendon) as of and for the year ended March 31, 2008, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Mendon Downtown Development Authority management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Mendon Downtown Development Authority, as of March 31, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Donald L. Paulsen, CPA

Patrick J. Monahan, CPA

Bruce S. A. Gosling, CPA

Michael R. Wilson, CPA

Rick L. Strawser, CPA

Jerrel T. Norman (1941-1982)

In accordance with *Government Auditing Standards*, we have also issued our report dated July 7, 2008, on our consideration of the Mendon Downtown Development Authority internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Norman & Paulson, P.C.

July 7, 2008

MENDON DOWNTOWN DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Mendon Downtown Development Authority financial performance provides an overview of the Authority's financial activities for the fiscal year ended March 31, 2008. Please read it in conjunction with the Authority's financial statements.

Financial Highlights

The Authority's overall financial position increased by \$640,868 during the fiscal year ended March 31, 2008, which represents 56 percent of the net asset position at the beginning of the year.

The Authority's Governmental Funds reflected a total fund balance at March 31, 2008 of \$797,570, which was an increase of \$249,740 from the prior year end.

The total Governmental Fund expenditures for the year ended March 31, 2008, amounted to \$540,169, of which \$325,225 were funded from a Community Development Block Grant through the State of Michigan for Water System Improvements.

Using This Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The Fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Authority's operations in more detail than the government-wide financial statements by providing information about the Authority's most significant funds.

MENDON DOWNTOWN DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Authority as a Whole

The following table shows, in a condensed format, the net assets as of the current year end and compared to the prior year end under the modified accrual basis of accounting:

	Governmental Funds	
	2008	2007
Assets	\$ 874,003	\$ 679,726
Liabilities	<u>76,433</u>	<u>131,896</u>
Fund Balance	<u>\$ 797,570</u>	<u>\$ 547,830</u>

The following table shows, in a condensed format, the net assets of the current date as required by GASB 34 stated under the full accrual basis.

	Governmental Activities	
	2008	2007
Current and other assets	\$ 874,003	\$ 679,726
Capital assets	<u>1,210,446</u>	<u>873,482</u>
Total assets	2,084,449	1,553,208
Current and other liabilities	76,433	65,056
Long-term debt outstanding	<u>221,771</u>	<u>342,775</u>
Total liabilities	298,204	407,831
Net assets		
Invested in capital assets, net of related debt	988,675	530,707
Unrestricted	<u>797,570</u>	<u>614,670</u>
Total net assets	<u>\$ 1,786,245</u>	<u>\$ 1,145,377</u>

MENDON DOWNTOWN DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the changes of the net assets during the current year as compared to the prior year, under the modified accrual basis of accounting:

	Governmental Funds	
	2008	2007
Revenue		
Taxes - Village captured	\$ 162,369	\$ 151,727
Taxes - Other governmental units captured	215,364	193,301
Federal grant - CDBG	325,225	-
Interest	19,986	18,529
Other	125	4,354
Land contract	66,840	9,420
Total revenue	789,909	377,331
Program expenses		
Economic development	540,169	494,740
Excess (deficiency)	<u>\$ 249,740</u>	<u>\$ (117,409)</u>

The following table shows, in a condensed format, the changes in net assets as of the current date as required by GASB 34 stated under the full accrual basis of accounting.

	Governmental Activities	
	2008	2007
Revenues		
Program revenues		
Capital grants	\$ 325,225	\$ -
General revenues		
Captured property taxes	377,733	345,028
Unrestricted investment earnings	19,986	18,529
Miscellaneous	125	5,284
Total revenues	723,069	368,841
Expenses		
Economic development	82,201	94,997
Change in net assets	<u>\$ 640,868</u>	<u>\$ 273,844</u>

MENDON DOWNTOWN DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Authority's Funds

Our analysis of the Authority's major funds begins on page 9, following the government-wide financial statements. The fund financial statements provide detailed information about the significant funds, not the Authority as a whole. Major funds for the fiscal year ended March 31, 2008 include the General Fund. The General Fund pays for all of the Authority's economic development services and is funded primarily by captured property taxes.

General Fund Budgetary Highlights

As shown in the required supplemental information, the Authority budgeted a decrease of \$17,060 in the original and final budgets. Actual operating results ended up as an increase of \$249,740.

Capital Assets and Debt Administration

During the year ended March 31, 2008, the Authority expended funds for building improvements for \$10,000 and expended funds for Water System Improvements for \$364,240, of which \$325,225 was funded from CDBG.

During the year ended March 31, 2008, the Authority paid down the principal by \$121,004 on the industrial park loan.

Contacting the Authority's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Authority office.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

MENDON DOWNTOWN DEVELOPMENT AUTHORITY

STATEMENT OF NET ASSETS
MARCH 31, 2008

	<u>Primary Government</u>	<u>Governmental Activities</u>
ASSETS		
Cash and investments	\$ 625,600	
Receivables - net	248,403	
Capital assets - net	<u>1,210,446</u>	
Total assets		2,084,449
LIABILITIES		
Accounts payable		76,433
Debt obligations:		
Due within one year		123,788
Due in more than one year		<u>97,983</u>
Total liabilities		<u>298,204</u>
NET ASSETS		
Invested in capital assets, net of related debt		988,675
Unrestricted		<u>797,570</u>
Total net assets	<u>\$ 1,786,245</u>	

See accompanying notes to financial statements

MENDON DOWNTOWN DEVELOPMENT AUTHORITY

STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2008

			Net (Expense) Revenue and Changes in <u>Net Assets</u>
<u>Functions/Programs</u>	<u>Expenses</u>	Capital Grants and Contributions	<u>Governmental Activities</u>
Primary government			
Governmental activities:			
Economic development	<u>\$ 82,201</u>	<u>\$ 325,225</u>	\$ 243,024
General revenues:			
Captured property taxes			377,733
Unrestricted investment earnings			19,986
Miscellaneous			<u>125</u>
Total general revenues			<u>397,844</u>
CHANGE IN NET ASSETS			640,868
NET ASSETS - BEGINNING			<u>1,145,377</u>
NET ASSETS - ENDING			<u>\$ 1,786,245</u>

See accompanying notes to the financial statements

FUND FINANCIAL STATEMENTS

MENDON DOWNTOWN DEVELOPMENT AUTHORITY

GOVERNMENTAL FUNDS
BALANCE SHEET
MARCH 31, 2008

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 625,600
Due from other governmental units	<u>248,403</u>
Total assets	<u><u>\$ 874,003</u></u>
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 76,433
FUND BALANCE	
Designated for future project	300,000
Unreserved, undesignated	<u>497,570</u>
Total fund balance	<u>797,570</u>
Total liabilities and fund balance	<u><u>\$ 874,003</u></u>

See accompanying notes to the financial statements

MENDON DOWNTOWN DEVELOPMENT AUTHORITY

GOVERNMENTAL FUNDS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES

TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

MARCH 31, 2008

Total governmental fund balances	\$	797,570
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Governmental capital assets	\$	1,280,224	
Less accumulated depreciation		<u>(69,778)</u>	1,210,446

Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.

Note payable		<u>(221,771)</u>
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Net assets of governmental activities	\$	<u><u>1,786,245</u></u>
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See accompanying notes to the financial statements

MENDON DOWNTOWN DEVELOPMENT AUTHORITY

GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
YEAR ENDED MARCH 31, 2008

	<u>General Fund</u>
REVENUES	
Federal grant	\$ 325,225
Taxes - Village captured	162,369
Taxes - Other governmental units captured	215,364
Interest	19,986
Land contract	66,840
Other	<u>125</u>
Total revenues	789,909
EXPENDITURES	
Economic development	
Contracted services	1,200
Administrative fee	20,320
Professional services	1,275
Supplies	225
Promotions	2,575
Utilities	8,581
Repairs	365
Projects	374,240
Miscellaneous	-
Debt service - principal	121,004
Debt service - interest	<u>10,384</u>
Total expenditures	<u>540,169</u>
EXCESS OF REVENUES OVER EXPENDITURES	249,740
FUND BALANCE - BEGINNING	<u>547,830</u>
FUND BALANCE - ENDING	<u>\$ 797,570</u>

See accompanying notes to the financial statements

MENDON DOWNTOWN DEVELOPMENT AUTHORITY

GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2008

Net change in fund balances - total governmental funds \$ 249,740

Amounts reported for governmental activities in the
statement of activities are different because:

Governmental funds report capital outlays as expenditures.
However, in the statement of activities, the cost of those
assets is depreciated over their estimated useful lives.

Expenditures for capital assets	374,240
Depreciation expense	(37,276)

Revenues in the statement of activities that do not provide
current resources are not reported as revenues in the
funds, but rather are deferred to subsequent fiscal years.

Collections on land contract	(66,840)
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Loan proceeds provide current financial resources to
governmental funds in the period issued, but issuing debt
increases long-term liabilities in the statement of net
assets. Repayment of loan principal is an expenditure in
the governmental funds, but the repayment reduces long-
term liabilities in the statement of assets.

Proceeds from installment loan	-
Principal payments on debt obligations	<u>121,004</u>

Change in net assets of governmental activities	<u>\$ 640,868</u>
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See accompanying notes to the financial statements

MENDON DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Mendon Downtown Development Authority conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The more significant accounting policies establishing GAAP and used by the Authority are discussed below.

Reporting Entity

The Mendon Downtown Development Authority was established in January 1986, in accordance with Michigan Act 198, 1975. The Authority operates a Board-Chairperson form of government and its basic purpose is to reestablish and maintain the vitality of business in the Village of Mendon.

The accompanying financial statements pertain to the financial activities of the Mendon Downtown Development Authority. These activities have also been presented with the financial statements of the Village of Mendon, Michigan, as a component unit.

Basis of Accounting - Government-Wide Financial Statements - The statement of net assets and the statement of activities display information about the Authority as a whole. They include all funds of the reporting entity except for fiduciary funds. These statements distinguish between activities that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in preparation of the proprietary fund financial statements but differs from the manner in which the governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

MENDON DOWNTOWN DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the Authority and for each governmental and component unit program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Some functions, such as administrative and financial services include expenses that are, in essence, indirect expenses of other functions. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the Authority.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Basis of Accounting - Fund Financial Statements - Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. A fund is considered major if it is the primary operating fund of the Authority or meets the following criteria:

- * Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and

MENDON DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- * Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

The Authority reports the following major funds:

General Fund - The general fund is the general operating fund of the Authority. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from captured property taxes from other governmental units. The following is a description of the major category and fund type within that category:

Governmental Fund - All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become susceptible to accrual (i.e., when they become both measurable and available). Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenue Recognition - "Measurable" means the amount of the transaction can be determined and "available" means collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Authority considers captured property taxes, interest revenue and charges for sales and services as susceptible to accrual if the amount was due on or before fiscal year end and collection was within one year after year end except for property taxes for which collection must be within two months of year end. Reimbursements due for state and federally funded projects are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made. All other revenue is recognized as payments are received.

MENDON DOWNTOWN DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Expenditure Recognition - The measurement focus of governmental accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. Allocation of costs, such as depreciation and amortization, are not recognized in the governmental funds.

The following is a description of the governmental fund types of the Authority:

General Fund - The general fund is the general operating fund of the Authority. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from captured property taxes from other governmental units.

Budgets and Budgetary Accounting - Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are legally adopted for the general fund. The Authority adopts its budget in accordance with Public Act 621, the Uniform Budgeting and Accounting Act, which mandates an annual budget process and an annual appropriation act to implement the budget. The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

- * On or about March 31, the Authority Board submits to the Village of Mendon Council a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
- * Public hearings are conducted to obtain taxpayer comments.
- * On or about April 1, the budget is legally enacted through passage of resolution.
- * The Authority Board is authorized to transfer budgeted amounts within departments.

MENDON DOWNTOWN DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- * The budget for the general fund is adopted on a basis consistent with generally accepted accounting principles.
- * Appropriations for the general fund lapse at the end of the fiscal year.
- * Budgeted amounts are as originally adopted or as amended by the Authority Board.

Deposits and Investments - Statutes authorize the primary government and component units to invest in the following:

- * In bonds, securities and other obligations of the United States or agency or instrumentality of the United States.
- * In certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation, a saving and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration.
- * In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- * In United States government or federal agency obligation repurchase agreements.
- * In banker's acceptances of United States banks.
- * In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- * In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

MENDON DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Receivables and Payables - Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." All other outstanding balances between funds are reported as "due to/due from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Prepaid Items - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets and Depreciation - Capital assets, which include property, buildings and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or construction. Contributed assets are recorded at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are also capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

	<u>Depreciable Life-Years</u>
Land improvements	15-40
Buildings and improvements	15-50
Machinery and equipment	5-20
Furniture and other	3-7

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

MENDON DOWNTOWN DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008**

NOTE 2 - CASH AND INVESTMENTS

The Authority uses financial institutions for cash and cash equivalent purposes, which are in accordance with statutory authority.

The accounts maintained in the financial institutions are checking and investment pool funds.

At March 31, 2008, the carrying amount of the Authority's deposits was \$625,600 and the bank balance was \$515,351. The differences between the balances are the result of checks issued by the Authority but not yet presented for payment. The risk exposure of all cash and cash equivalents at March 31, 2008, is as follows:

Insured	\$ 11,082
Uninsured	<u>-</u>
Total cash and cash equivalents	<u>\$ 11,082</u>

The Authority's remaining cash and cash equivalents at March 31, 2008, consists of an investment pool, the Government Cash Reserves Fund in the amount of \$504,269, which by definition, are not categorized by risk. The carrying values and market values are the same for these investments.

NOTE 3 - RECEIVABLES

Receivables in the governmental activities include \$17,387 due from Mendon Township for captured taxes, \$162,369 from Mendon Village for captured taxes and \$68,647 due from the State of Michigan (Federal) Community Development Block Grant.

Accounts receivable in the governmental activities are reported net of an allowance for uncollectible accounts of -0-.

MENDON DOWNTOWN DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008**

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the year ended March 31, 2008, was as follows:

	As Amended Balance April 1, 2007	Additions	Disposals	Balance March 31, 2008
<u>Primary Government</u>				
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 36,265	\$ -	\$ -	\$ 36,265
Construction in process	<u>-</u>	<u>364,240</u>	<u>-</u>	<u>364,240</u>
Subtotal	36,265	364,240	-	400,505
Capital assets, being depreciated:				
Land improvements	741,071	-	-	741,071
Buildings and improvements	84,942	10,000	-	94,942
Machinery and equipment	<u>43,706</u>	<u>-</u>	<u>-</u>	<u>43,706</u>
Subtotal	869,719	10,000	-	879,719
Accumulated depreciation				
Land improvements	12,351	24,702	-	37,053
Buildings and improvements	2,831	6,330	-	9,161
Machinery and equipment	<u>17,320</u>	<u>6,244</u>	<u>-</u>	<u>23,564</u>
Subtotal	<u>32,502</u>	<u>37,276</u>	<u>-</u>	<u>69,778</u>
Net capital assets being depreciated	<u>837,217</u>			<u>809,941</u>
Net capital assets	<u>\$ 873,482</u>			<u>\$ 1,210,446</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

Economic
development \$ 37,276

MENDON DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 5 - LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended March 31, 2008:

	Balance April 1, 2007	Additions	Reductions	Balance March 31, 2008
Bank note payable	<u>\$ 342,775</u>	<u>\$ -</u>	<u>\$ 121,004</u>	<u>\$ 221,771</u>

Long-term debt payable at March 31, 2008, consisted of the following individual issues:

Note payable to bank at interest rate of 3.55%, monthly payment of principle and interest of \$10,949, final payment due December 15, 2010, secured by real estate.	<u>\$ 221,771</u>
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Debt Service Requirements

The annual requirements to service all debt outstanding as of March 31, 2008 including both principal and interest, are as follows:

	Principal	Interest	Total
2009	\$ 123,788	\$ 7,600	\$ 131,388
2010	<u>97,983</u>	<u>1,500</u>	<u>99,483</u>
Total	<u>\$ 221,771</u>	<u>\$ 9,100</u>	<u>\$ 230,871</u>

NOTE 6 - CAPTURED TAXES

Captured taxes represent the property taxes on the increment in taxable value of the downtown development district property since the adoption of the development plan. These taxes are earmarked for purposes consistent with the development plan.

MENDON DOWNTOWN DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008**

NOTE 7 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The annual budget is prepared by the Authority management and adopted by the Authority Board; subsequent amendments are approved by the Authority Board. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with generally accepted accounting principles.

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the Authority were adopted on a fund level basis.

During the year ended March 31, 2008, the Authority incurred no expenditures in excess of the amounts appropriated at the legal level of budgetary control.

NOTE 8 - CONSTRUCTION COMMITMENTS

The Authority entered into a construction commitment for the 2007 Water System Improvement Project with a projected cost of \$1,100,000. As of March 31, 2008, \$364,240 has been spent on this project. The Authority has obtained a Community Development Block Grant in the amount of \$750,000 through the Michigan Economic Development Corporation to fund a portion of this project. At the completion of this project, the total costs will be capitalized and depreciated in the Village of Mendon Water Supply System Fund.

REQUIRED SUPPLEMENTAL INFORMATION

MENDON DOWNTOWN DEVELOPMENT AUTHORITY

**REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND**

**BUDGETARY COMPARISON SCHEDULE
YEAR ENDED MARCH 31, 2008**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
REVENUES				
Federal grant	\$ 810,000	\$ 810,000	\$ 325,225	\$ (484,775)
Taxes - Village captured	125,000	125,000	162,369	37,369
Taxes - other governmental units captured	140,000	140,000	215,364	75,364
Interest	15,000	15,000	19,986	4,986
Land contract	9,500	9,500	66,840	57,340
Other	<u>-</u>	<u>-</u>	<u>125</u>	<u>125</u>
Total revenues	1,099,500	1,099,500	789,909	(309,591)
EXPENDITURES				
Economic development				
Contracted services	1,160	1,160	1,200	(40)
Administrative fee	35,000	35,000	20,320	14,680
Professional services	1,900	1,900	1,275	625
Supplies	750	750	225	525
Promotions	4,250	4,250	2,575	1,675
Utilities	8,000	8,000	8,581	(581)
Repairs	-	-	365	(365)
Projects	975,000	975,000	374,240	600,760
Miscellaneous	3,500	3,500	-	3,500
Debt service - principal	75,000	75,000	121,004	(46,004)
Debt service - interest	<u>12,000</u>	<u>12,000</u>	<u>10,384</u>	<u>1,616</u>
Total expenditures	<u>1,116,560</u>	<u>1,116,560</u>	<u>540,169</u>	<u>576,391</u>
EXCESS (DEFICIENCY) OF				
REVENUES OVER EXPENDITURES	(17,060)	(17,060)	249,740	266,800
FUND BALANCE - BEGINNING				
	<u>547,830</u>	<u>547,830</u>	<u>547,830</u>	<u>-</u>
FUND BALANCE - ENDING				
	<u>\$ 530,770</u>	<u>\$ 530,770</u>	<u>\$ 797,570</u>	<u>\$ 266,800</u>



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT FINANCIAL
STATEMENTS PERFORMED IN OF ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

To the Members of the Authority Board
Mendon Downtown Development Authority

We have audited the financial statements of the governmental activities and the major fund of the Mendon Downtown Development Authority as of and for the year ended March 31, 2008, which collectively comprise the Mendon Downtown Development Authority's basic financial statements and have issued our report thereon dated July 7, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting - In planning and performing our audit, we considered the Mendon Downtown Development Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Mendon Downtown Development Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Mendon Downtown Development Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Donald L. Paulsen, CPA
Patrick J. Monahan, CPA
Bruce S. A. Gosling, CPA
Michael R. Wilson, CPA
Rick L. Strawser, CPA
Jerrel T. Norman (1941-1982)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters - As part of obtaining reasonable assurance about whether the Mendon Downtown Development Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended for the information of the Authority Board, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Norman J. Paulson, P.C.

July 7, 2008



Norman & Paulsen, P.C.

Certified Public Accountants

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**REQUIRED COMMUNICATION TO THE MENDON DOWNTOWN
DEVELOPMENT AUTHORITY
IN ACCORDANCE WITH PROFESSIONAL STANDARDS**

July 7, 2008

To the Authority Board
Mendon Downtown Development Authority

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Mendon Downtown Development Authority for the year ended March 31, 2008, and have issued our report thereon dated July 7, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated April 21, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Mendon Downtown Development Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the financial statements.

Disclosures

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures may be particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements, if any.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 7, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This communication is intended solely for the information and use of management, Council, and others within the Municipality, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Norman A. Paulson, P.C.